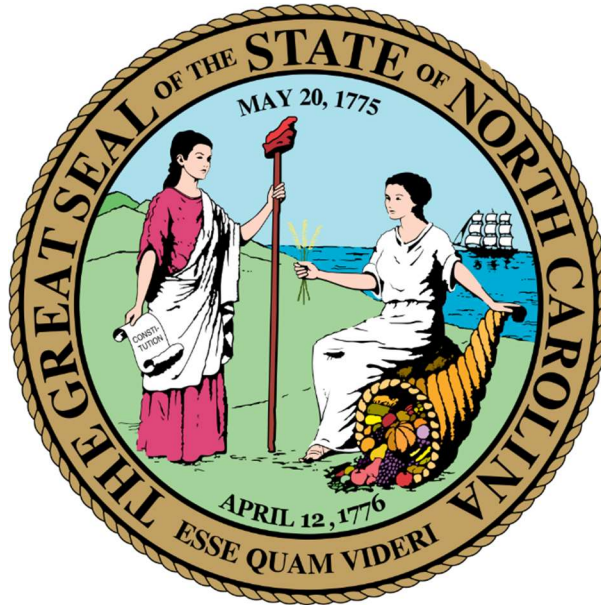


Report on the Budget Accountability and Transparency Reform Initiative



Office of State Budget and Management

February 19, 2019

Submitted to:

House of Representatives Appropriations Committee

Senate Appropriations/Base Budget Committee

Fiscal Research Division of the General Assembly

Background

Section 6.3 of Session Law 2018-5 directs the Office of State Budget and Management (OSBM) and the Department of Public Safety (DPS) to jointly develop and execute a base budget reform plan pilot. A committee made up of staff from OSBM and DPS met to determine the objectives of the legislation and develop a plan to meet these objectives. The committee determined the objectives to be three-fold:

1. Provide transparency to all users.
2. Realign the DPS base budget to more accurately reflect actual requirements.
3. Budget receipts based on actuals.

To meet these objectives, the committee:

Evaluated the Current Fund Structure for Transparency

The Committee evaluated the current fund structure to determine if the existing structure provided data in a useful and meaningful way for decision makers and the public. The current structure was developed to allow the agency to quickly respond to information requests on specific programs such as inmate medical and the state trooper school. In the current fund structure, each division is assigned a series of fund codes as outlined in the table below:

Table 1: Current Fund Structure for DPS (Budget Code 14550)

Fund Series	Division
11XX	Administration
12XX	Juvenile Justice
13XX	Adult Corrections
14XX	Law Enforcement
1402	State Capital Police
1403-1413	State Highway Patrol (SHP)
1414	VIPER
1450	State Bureau of Investigation
15XX	Emergency Management
16XX	NC National Guard

The Committee determined that the current fund structure is easy to understand, groups programs by division, and identifies key programs of interest to legislators and the public in separate funds. The committee identified two improvements to the fund structure and incorporated these changes into the 2019-21 Base Budget Document:

1. VIPER - Voice Interoperability Plan for Emergency Responders is a communication system for public safety officials across the state to communicate with each other when responding to emergencies. This program is currently budgeted in the DPS law enforcement series (Fund 1414), but the system supports emergency responders from local, state and federal agencies. In order to clarify that this system is not solely used by DPS law enforcement divisions, VIPER has

been separated out from the 14XX law enforcement series. Fund 1710 is now established exclusively for VIPER.

2. Center for Community Transition – Fund 1316 only contained miscellaneous contractual service expenditures related to this Center’s prison programming which assists offenders with transitioning back into the community. The budget for Fund 1316 has been consolidated into Corrective Programs (Fund 1345) which houses program activities similar to the Center for Community Transitions.

Assessed Vacant Positions to More Closely Align with Actual Requirements

Over the last three fiscal years, DPS experienced one of the highest turnover rates in state government. Correctional officers have the highest rate of turnover for any single classification of employee. High turnover results in numerous vacant positions for which the Department often has a difficult time recruiting and retaining employees due to a strong economy, low pay, and challenging working conditions.

However, recent legislative increases to both State Highway Patrol and correctional officer salaries coupled with enhanced recruitment and retention efforts by the Department are expected to improve both recruitment and retention of departmental employees. These changes add uncertainty to the review of vacant positions and lapsed salaries. Therefore, the committee developed an approach to reviewing vacant positions that attempted to balance operational safety needs with the need to fund mission-critical activities like employee overtime, workers’ compensation and inmate medical expenses.

In assessing vacant positions, the Committee determined that DPS would review positions that were vacant for one year or longer for possible elimination. DPS reviewed 234 vacant positions and identified:

- 19 positions to eliminate in order to address structural budget shortfalls in overtime, longevity, and workers’ compensation medical payments;
- 88 positions to repurpose to better meet agencies needs and priorities;
- 30 positions to retain to meet minimum staffing safety requirements;
- 97 positions that are actively posted or in the process of being filled.

The results from this analysis are incorporated into the 2019-21 Base Budget Document which now better reflects DPS’ actual staffing needs.

Proactively Budgeted Lapsed Salary

DPS generates significant lapsed salary because of high turnover, recruiting difficulties, and a high vacancy rate partially driven by an inability to eliminate positions that are needed to maintain minimum staffing safety standards at facilities. DPS depends on these funds to pay for critical services and could not operate without lapsed salary. Since lapsed salary is generated when a position is vacant, the recent legislative salary increases and departmental recruitment and retention efforts may affect DPS’ ability to generate lapsed salary. Table 2 provides a three-year history of total lapsed salary generated and used.

Table 2: Three Year History of Lapsed Salary Generated & Used

	Generated		Used		Unused
FY 2015-16	\$	132,427,521	\$	129,602,173	\$ 2,825,348
FY 2016-17	\$	163,642,581	\$	162,627,910	\$ 1,014,671
FY 2017-18	\$	186,487,428	\$	186,487,423	\$ 4.75

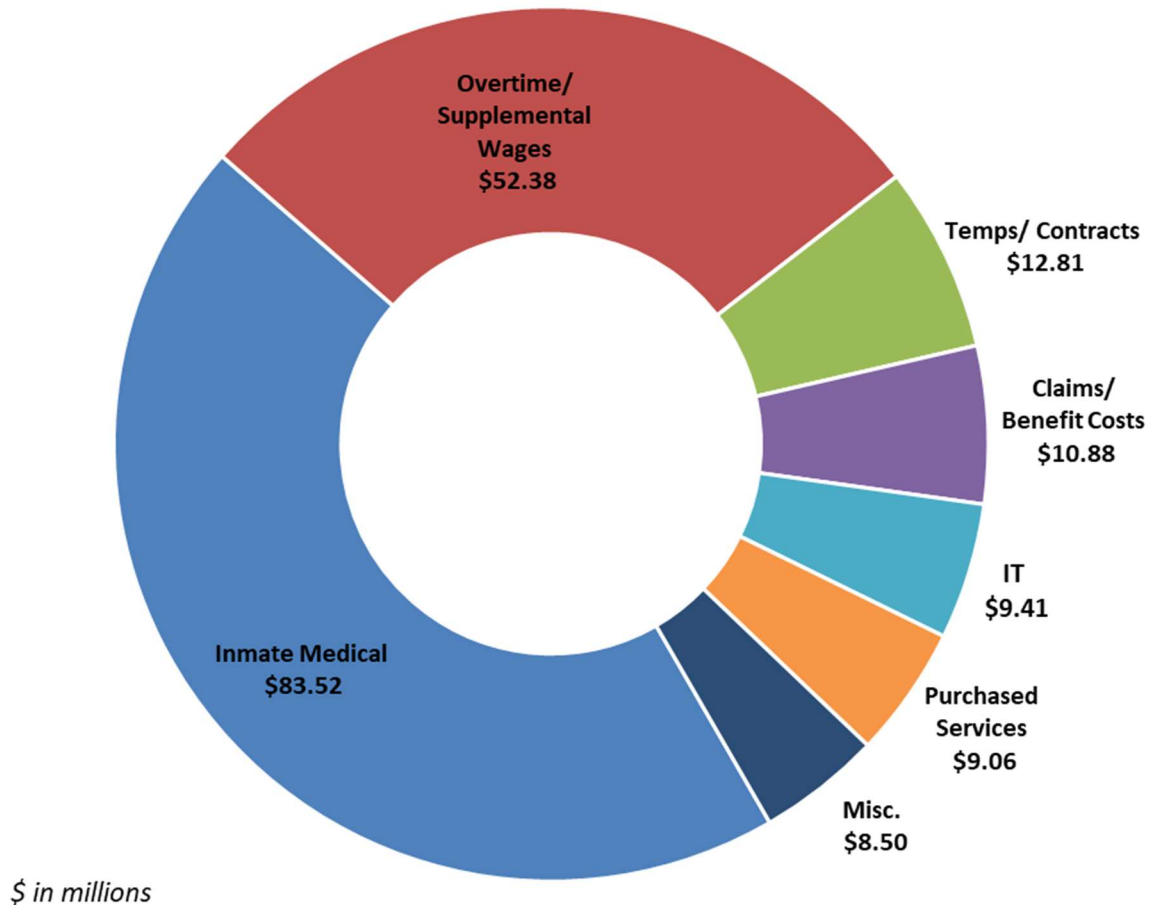
Table 3 summarizes the amount of lapsed salary generated and used by division for FY 2017-18. This table illustrates the Department's dependence on lapsed salary generated, regardless of division, to cover general operating expenditures.

Table 3: FY 2017-18 Lapsed Salary Generated & Used by Division

	Generated		Used		Unused
Administration	\$	3,328,169	\$	3,993,326	\$ (665,157)
Juvenile Justice	\$	8,356,233	\$	7,334,841	\$ 1,021,392
Adult Corrections	\$	154,223,119	\$	160,360,889	\$ (6,137,770)
SHP	\$	15,698,880	\$	11,616,342	\$ 4,082,538
ALE/SBI	\$	3,779,826	\$	2,468,043	\$ 1,311,783
State Capital Police	\$	63,314	\$	84,189	\$ (20,875)
Emergency Management	\$	302,129	\$	261,867	\$ 40,262
National Guard	\$	735,758	\$	367,926	\$ 367,832
Totals	\$	186,487,428	\$	186,487,423	\$ 5

Below, Chart 1 further illustrates how lapsed salary funds are used across the Department to cover underfunded operations. More than 70% of lapsed salary funds are used for inmate medical and overtime wages.

Chart 1: FY 2017-18 Use of Lapsed Salary by Purpose



For the 2019-21 Base Budget, DPS projected lapsed salary by fund and budgeted the salary-related portion (excluding benefits) as a negative reserve in a new account 53 1995 TURNOVER REALIGNMENT. This account was established exclusively for the purpose of budgeting projected lapsed salary. This negative reserve was offset by increasing the budget for line items in which lapsed salary is expected to be used. As a result, budgeted line items more accurately reflect actual expenditures and projected lapsed salaries are clearly identified in the base budget.

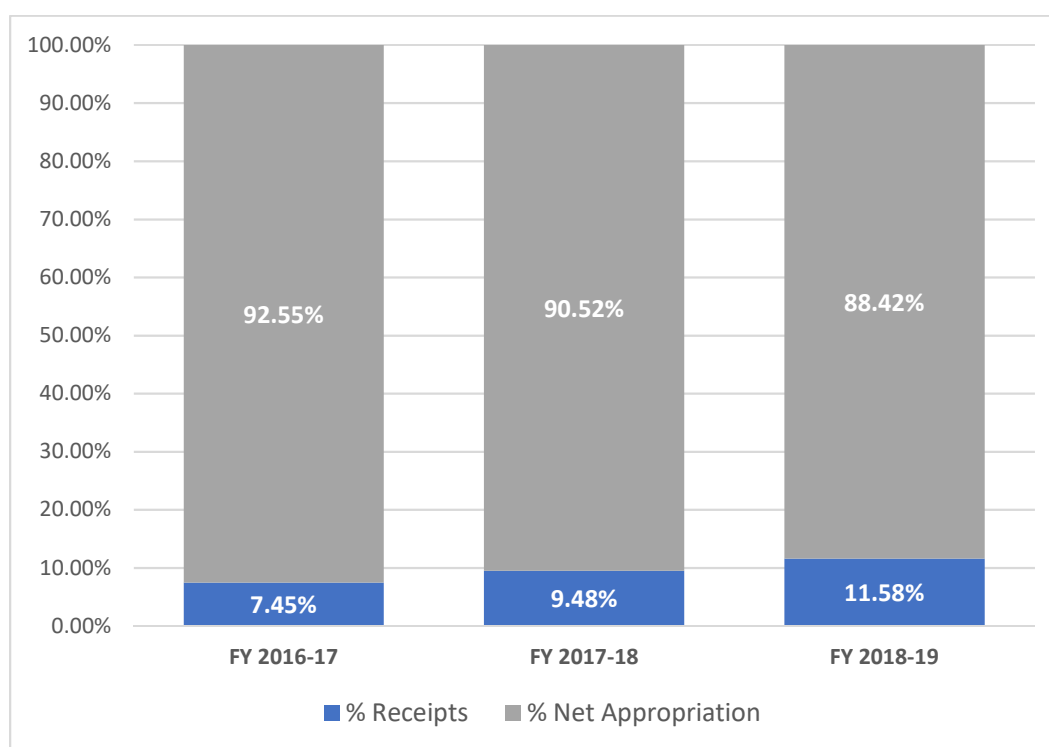
As previously noted, the Department's recruitment and retention processes have improved, creating some uncertainty in the ability to project future generation of lapsed salary. The Committee recommended budgeting only the salary portion of lapsed salary (lapsed salary is generated across not only the salary line item but also any payroll or personnel dependent line item, including retirement, FICA, and health insurance contributions). This provides a small buffer which is needed in case retention and recruitment efforts reduce actual lapsed salary below the projected, budgeted levels.

Accurately Budgeted Receipts Based on Historical Trends

As part of the Base Budget development process an analysis is completed to review actual receipt collections relative to budget. For the 2019-21 Base Budget, this review included a comparison of the 3-year average of actual collections compared to the 2018-19 authorized budget. Based on these analyses and information on projected grants and receipts, DPS and OSBM realigned the Department's receipts through budget revisions to more accurately reflect expected collections. These changes to receipts are reflected in the Base Budget for the 2019-21 fiscal biennium.

Chart 2 shows that for the last three fiscal years over 88% of DPS' General Fund operations have been funded with appropriation and less than 12% through receipts. While it is important to accurately budget receipts, these adjustments have only minor impacts on DPS' overall requirements.

Chart 2: Total Requirements by Funding Source FY 2016-17 to FY 2018-19



Conclusion

By analyzing the fund structure, vacant positions, lapsed salary usage and budgeted receipts, realignments were made to the 2019-21 Base Budget to more closely reflect actual operations. The current fund structure effectively provides the user with budget information for each division and key programs within each division.

The elimination of 19 vacant positions, realignment of budgeted requirements to address line items with structural shortfalls, and establishment of a new reserve account to reflect the projected use of lapsed salary all make the 2019-21 Base Budget Document a more transparent and accurate plan. Additionally, receipts have been realigned to more closely project actuals. The review conducted during this initiative enabled the Committee to develop a Base Budget for the Department of Public Safety that provides improved transparency to users and will be a more effective tool for making budget decisions.

BUDGET ACCOUNTABILITY AND TRANSPARENCY REFORM INITIATIVE

SECTION 6.3.(a) Finding and Purpose. – The General Assembly finds that the State budget is its central policy document and primary vehicle for directing the provision of programs and services to the citizens of the State. As such, the State's budget must be clear, transparent, and credible if it is to serve as a basis of accountability to its citizens. Therefore, it is the intent of the General Assembly to provide flexibility and support to the Governor in continuing efforts to effectuate the necessary changes to the structure and presentation of the State budget. The purpose of the Budget Accountability and Transparency Reform Initiative established by this section is to ensure the highest level of transparency for meaningful review of the State budget by all citizens of the State.

SECTION 6.3.(b) Base Budget Reform Plan Pilot. – The Office of State Budget and Management and the Department of Public Safety (Department) shall develop jointly and execute a base budget reform plan for the Department that ensures all of the following:

- (1) Strict adherence to Chapter 143C of the General Statutes, the State Budget Act.
- (2) Realignment of the Department's expenditures and revenues in a clear and logical manner.
- (3) Presentation of a comprehensive, accurate, and reliable account of all Department expenditures and revenues.
- (4) An annual base budget document for the Department that:
 - a. Is presented in a format that promotes effective decision making, accountability, and oversight; and
 - b. Provides detailed budget information that can be understood at all levels of State government and by members of the general public.

SECTION 6.3.(c) Realignments. – Effective with the development and presentation of the Governor's 2019-2021 recommended biennial base budget, the Office of State Budget and Management may realign the various line items of expenditure and revenue in the Department's budget. The Department, with the approval of the Office of State Budget and Management, shall build its line-item budgets, including elimination of vacant positions to more closely align with actual requirements and anticipated receipts for each of the programs and purposes contained in the Governor's Recommended Base Budget for the Department. The Department must budget receipts based on historical trends. Under no circumstances may the Department move receipts between programs and purposes. The Department's newly aligned line-item budgets shall be submitted to the General Assembly as part of the Governor's Recommended Base Budget for the 2019-2021 fiscal biennium.

SECTION 6.3.(d) Authorization to Eliminate Positions. – Notwithstanding any State law, rule, regulation, or directive to the contrary, including any order issued by the Governor or the Governor's designee, vacant positions in the Department may be eliminated for the purpose of realigning the Department's budget only upon the express authorization of the General Assembly in this act or a subsequent enactment.

SECTION 6.3.(e) Reporting. – The Office of State Budget and Management shall report its progress in developing the realigned base budget required in subsection (a) of this section to the chairs of the House of Representatives Appropriations Committee, the chairs of the Senate Appropriations/Base Budget Committee, and the Fiscal Research Division of the General Assembly no later than October 1, 2018. The Office of State Budget and Management shall submit the newly realigned base budget to the Fiscal Research Division by January 1, 2019.